

**IN THE CLAIMS:**

Please amend the claims as follows:

1. (Cancelled) A rotary drill bit for milling casing material and drilling subterranean formation material, comprising:
  - a bit body having a shank portion for interconnection to a drill string, and a plurality of cutting elements extending from the bit body;
  - a first set of the cutting elements adapted for milling casing material; and
  - a second set of the cutting elements adapted for drilling subterranean formation material.
2. (Cancelled) A rotary drill bit of Claim 1 wherein the first set of cutting elements are formed from a material that is less hard than the cutting elements of the second set.
3. (Cancelled) A rotary drill bit of Claim 1 wherein the cutting elements of the first set are formed from a material selected from the group consisting of tungsten carbide, cubic boron nitride, and hardened steel.
4. (Cancelled) A rotary drill bit of Claim 1 wherein the cutting elements of the second set are formed from a material selected from the group consisting of: polycrystalline diamond compact (PDC), thermally stable polycrystalline diamond product (TSP), natural diamond, cubic boron nitride, and tungsten carbide.
5. (Cancelled) A rotary drill bit of Claim 1 wherein each of the cutting elements in the second set comprises a facing table of polycrystalline diamond bonded to a substrate of less hard material.
6. (Cancelled) A rotary drill bit of Claim 1 wherein a portion of the first set of cutting elements has a tip exposure greater than or equal to a tip exposure of the second set of cutting elements.
7. (Cancelled) A rotary drill bit of Claim 1 wherein the first set of cutting elements proceeds the second set of cutting elements in the direction of rotation.

8. (Cancelled) A rotary drill bit of Claim 1 wherein the first set of cutting elements trails the second set of cutting elements in the direction of rotation.

9. (Cancelled) A rotary drill bit of Claim 1 wherein the cutting elements of the first set and the second set are radially interposed.

10. (Cancelled) A rotary drill bit of Claim 1 wherein the cutting elements of the first set have a cross-sectional area different than the cutting elements of the second set.

11. (Cancelled) A rotary drill bit of Claim 1 wherein the cutting elements of the first set have a face configuration different than the cutting elements of the second set.

12. (Cancelled) A rotary drill bit of Claim 1 wherein the first set of cutting elements are mounted in a binding material that covers at least a portion of a gage portion of the bit body.

13. (Cancelled) A rotary drill bit of Claim 12 wherein the binding material is removed by drilling through subterranean earthen materials.

14. (Cancelled) A method of drilling a lateral wellbore from a casing set within a borehole, comprising:

(a) attaching a rotary drill bit for milling casing material and drilling subterranean formation material onto a drill string;

(b) moving the drill bit and the drill string into a casing set within a borehole;

(c) causing the drill bit to engage an inner surface of the casing whereby a first set of cutting elements on the drill bit remove casing material to mill a lateral opening in the casing;

(d) directing the drill bit and the drill string through the lateral opening so that a second set of cutting elements on the drill bit create a lateral wellbore in subterranean earthen material.

Please add the following new claims:

15. (New) A rotary drill bit for milling casing material and drilling subterranean formation material, comprising:

a bit body having a shank portion and a matrix portion for interconnection to a drill string, and a plurality of cutting elements extending from the matrix portion;

a first set of the cutting elements adapted for milling casing material; and

a second set of the cutting elements adapted for drilling subterranean formation material.

16. (New) The rotary drill bit of claim 15, wherein the matrix portion comprises diamond material.

17. (New) The rotary drill bit of claim 15, wherein the bit is bi-centered.

18. (New) The rotary drill bit of claim 15, wherein the bit body includes a lower pilot section and an upper reaming section.

19. (New) The rotary drill bit of claim 15, wherein the drill bit is a drag type drill bit.

20. (New) A rotary drill bit of Claim 15, wherein the first set of cutting elements precedes the second set of cutting elements in the direction of rotation.

21. (New) A rotary drill bit of Claim 15, wherein the first set of cutting elements trails the second set of cutting elements in the direction of rotation.

22. (New) A rotary drill bit for milling casing material and drilling subterranean formation material, comprising:

a bit body having a plurality of cutting elements extending from the bit body;

a first set of the cutting elements adapted for milling casing material; and

a second set of the cutting elements adapted for drilling subterranean formation material, wherein the cutting elements of the first and second sets are substantially interspersed on a surface of the bit body.

23. (New) The rotary drill bit of claim 22, wherein the first set is radially displaced outwardly on the bit body relative to the second set.

24. (New) The rotary drill bit of claim 22, wherein the bit body has an axis and the cutting elements of the first and second sets relatively are positioned on substantially the same radius relative to the axis.
25. (New) The rotary drill bit of claim 22, wherein the cutting elements of the first set have a cross-sectional area different than the cutting elements of the second set.
26. (New) The rotary drill bit of claim 22, wherein the cutting elements of the first set have a face configuration different than the cutting elements of the second set.
27. (New) The rotary drill bit of claim 22, wherein the first set of cutting elements are mounted in a binding material that covers at least a portion of a gage portion of the bit body.
28. (New) The rotary drill bit of claim 27, wherein the binding material is removed by drilling through subterranean earthen materials.
29. (New) A method of drilling a lateral wellbore, comprising:  
positioning a rotary drill bit disposed on a drill string proximate a desired location in a cased wellbore, the rotary drill bit comprising:  
a bit body;  
a first set of the cutting elements; and  
a second set of the cutting elements, wherein the cutting elements of the first and second sets are substantially interspersed on a surface of the bit body;  
rotating the drill bit whereby the first set of cutting elements remove casing material at the desired location to form a lateral opening in the cased wellbore; and  
directing the drill bit through the lateral opening whereby the second set of cutting elements form the lateral wellbore.
30. (New) The method of claim 29, wherein the first set is radially displaced outwardly on the bit body relative to the second set.